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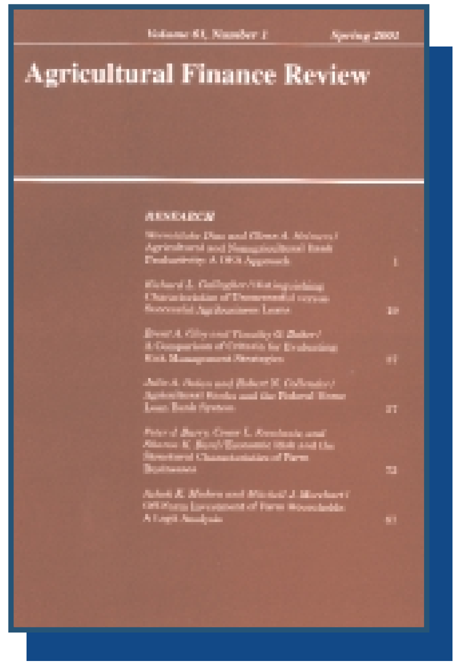
Off-Farm Investment of Farm Households: A Logit Analysis



Agricultural Finance Review

Volume 61, Number 1
Spring 2001

Ithaca, NY: Cornell University

"Off-Farm Investment of Farm Households: A Logit Analysis"

Pages 86-101

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Investments selected by individual farmers/farm households will have important implications for the investor's financial well-being, the availability of venture capital for economic development of rural areas, and the competitiveness of financial institutions in rural areas. Furthermore, farmers/managers need to know their investment (both farm and off-farm) portfolios because many of their financial decisions have ramifications for liquidity, retirement, solvency, taxation, and profitability management. Little is known about the farm operator's household and socio-economic characteristics that affect off-farm investments. The objective of this study is to identify factors that affect off-farm investments by farm households and to quantify the factors' relative importance in off-farm investment decisions by farm households.

Operators' level of education and age were positive and significant in explaining off-farm investment decisions. Household net worth, farm size, and off-farm involvement had the expected positive effects on off-farm investment. In the case of farm size, results suggest that large farms are more likely to be financially diversified than small farms. Results also suggest that increased farm diversification and higher debt reduced the likelihood of off-farm investment by farm households. Better managers are more likely to invest off the farm. Farm households located in the Heartland, Northern Great Plains, and Basin and Range regions are less likely to invest in off-farm opportunities. Farm households located in the Prairie Gateway and Southern Seaboard are more likely to invest off the farm.